

after Vane



PRIME MINISTER

NATIONALISED INDUSTRIES PAY

underneath

Geoffrey Howe sent me a copy of his minute to you of 26 March on nationalised industries pay. I have also seen the note of the meeting Geoffrey held on 19 March which I was unfortunately unable to attend.

I note that one of the main approaches proposed is to make a link between pay settlements and future investment in the industry concerned. Keith Joseph has reported in his letter of 25 March that this line may be followed in the British Telecom negotiations. I shall be interested to see how this develops and also the results of the further work by the Treasury and the Department of Employment. However I have some scepticism about the effectiveness and wisdom of this approach.

If we deny funds to a nationalised industry for capital investment the main sufferers in the short-term at least will be their contractors and suppliers (usually in the private sector) whose employees will lose their jobs. As the effects of delayed investment begin to show through, the nationalised industry's customers will suffer in reduced service or higher costs. Within the nationalised industry itself, however, cuts in capital investment, which are usually labour saving and sometimes very extensively so, are more likely to preserve jobs, as well as prolonging inefficiency. I therefore find it difficult to believe that a threat to curtail capital investment will be an effective deterrent to high wage claims by workers in the nationalised industry concerned, or that it would necessarily be sensible to react to an undesirably high settlement by carrying out the threat.

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I hope that these points will be fully explored in the further work which is envisaged.

I am sending copies of this minute to Geoffrey Howe, Keith Joseph, Jim Prior, David Howell, Michael Heseltine, George Younger, Norman Fowler, Francis Pym, Robin Ibbs and Sir Robert Armstrong.

WJB

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27 March 1981

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